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SUBJECT: IRAQI DPM SALIH ON OIL PRODUCTION AND OIL MINISTER

Classified By: EMIN Ambassador Marc Wall, reasons 1.4(b,d)

¶1. (C) Summary: In a meeting with EMIN, Deputy Prime Minister Barham Salih complained bitterly about the performance of Minister of Oil Shahrستاني. Salih is worried by signs that output from the southern oil fields is declining, although he does not anticipate short-term cash flow problems. He said he is encouraging central government and KRG officials to work together to bring output from KRG fields to market. End summary.

¶2. (C) At the close of an October 10 meeting with EMIN on other topics, DPM Barham Salih turned to the issue of oil production and launched into a strong critique of Minister of Oil Shahrستاني's performance. Salih began by expressing concern about data indicating that oil production from the southern fields has declined in recent months (Note: GOI data indicate that average daily production in the south this month is running at 1.79 million bbls/day, down from a recent high of 1.92 in August, but still above a low of 1.77 in April). Salih said he is very troubled not so much by the implications for GOI cash flow, which he believes there are adequate reserves to manage, but more because of the longer-term impact on development: the country needs to boost its oil revenues to permit expanded investment in schools and other basic and essential services. Salih said he had sent a memo to the prime minister expressing concern about the declining production, and that despite the fact that he had worded the memo "very gently," it drew a sharp reaction from Shahrستاني.

¶3. (C) Salih said he understands that the fundamental problem is maintenance of the fields, as well as the impact of improper water injection management in the reservoirs. However he believes this is primarily a failure of management. He claimed some \$8 billion had been allocated for the oil sector (time period not identified); Shahrستاني had in the past promised that oil output by the end of 2008 would be 3 million bbls/day. Today it is 2.4 million bbls/day (based on GOI data). The reason is the failure of the Oil Ministry to adequately plan for necessary maintenance. He complained that recent changes in the Southern Oil Company were a "serious problem." The Oil Ministry is simply "not up to the task of thinking big and planning ahead" Salih complained. It ought to be clear to them that foreign expertise is needed to increase output. Shahrستاني "wasted time" with the short-term technical service agreements earlier this year; he has refused to have a rational debate about the merits of service agreements versus production sharing agreements; he takes a nationalistic approach to the issue, and paints a supposed "loss" for the international oil companies (i.e., the GOI decision not to pursue the production sharing agreements that the oil companies would prefer) as a "win" for Iraq - despite the fact that the country is still producing much less oil than planned. Finally, Salih said that PM Maliki now realizes that the Ministry of Oil is not operating as effectively as he had thought, and is "finally alarmed" by the situation.

¶4. (C) Salih admitted that the Kurdistan Regional Government's decision to move forward quickly with production sharing agreements with foreign firms had had a negative impact on the situation, heightening the nationalistic sentiment that Shahrستاني is addressing. On the other hand, at least two of the fields in the KRG (Tawke and Taqtaq) were nearly ready to begin moving 100,000 bbls/day to market. He is urging the KRG and central authorities to put aside politics and find a way to permit this new output to enter into the Iraqi network. EMIN noted that USG policy is that the sale and export of oil from KRG fields ought to be subject to the same terms as other Iraqi oil.

¶5. (C) Comment: Salih is only one of many critics Shahrستاني has among the Iraqi leadership. We have no confirmation of Salih's implication that PM Maliki now shares the concern that Shahrستاني's management of the Oil Ministry is sufficiently harmful to warrant some sort of action. In terms of the KRG deals, Shahrستاني has confirmed that he is open to negotiating on linking the Tawke field to Iraq's existing oil export pipelines (septel). But there remain serious hurdles to this goal. The PSAs promise approximately 50% of the oil to the oil companies. That is well above the 17% of revenue that the KRG receives from oil exports, and which Shahrستاني will insist be the arrangement if the KRG oil is exported through the national network.
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